

Exhibit A-8

State of Palestine

Ministry of Finance

**Fiscal Developments & Macroeconomic Performance:
Fourth Quarter and Full year 2013 Report**

Macro Fiscal Unit

February, 2014

Section 1: Palestinian Territory Macroeconomic Performance in 2013:

GDP: According to preliminary estimates published by PCBS¹, real GDP in Palestine has increased by 2.6% during the third quarter of 2013 compared to the 3rd quarter of 2012, and it showed a decrease of 1.3% compared to the 2nd quarter of 2013. Though GDP numbers might be changed since PCBS is reviewing its numbers and they maybe went down to 1.5% real growth for full year 2013 over 2012.

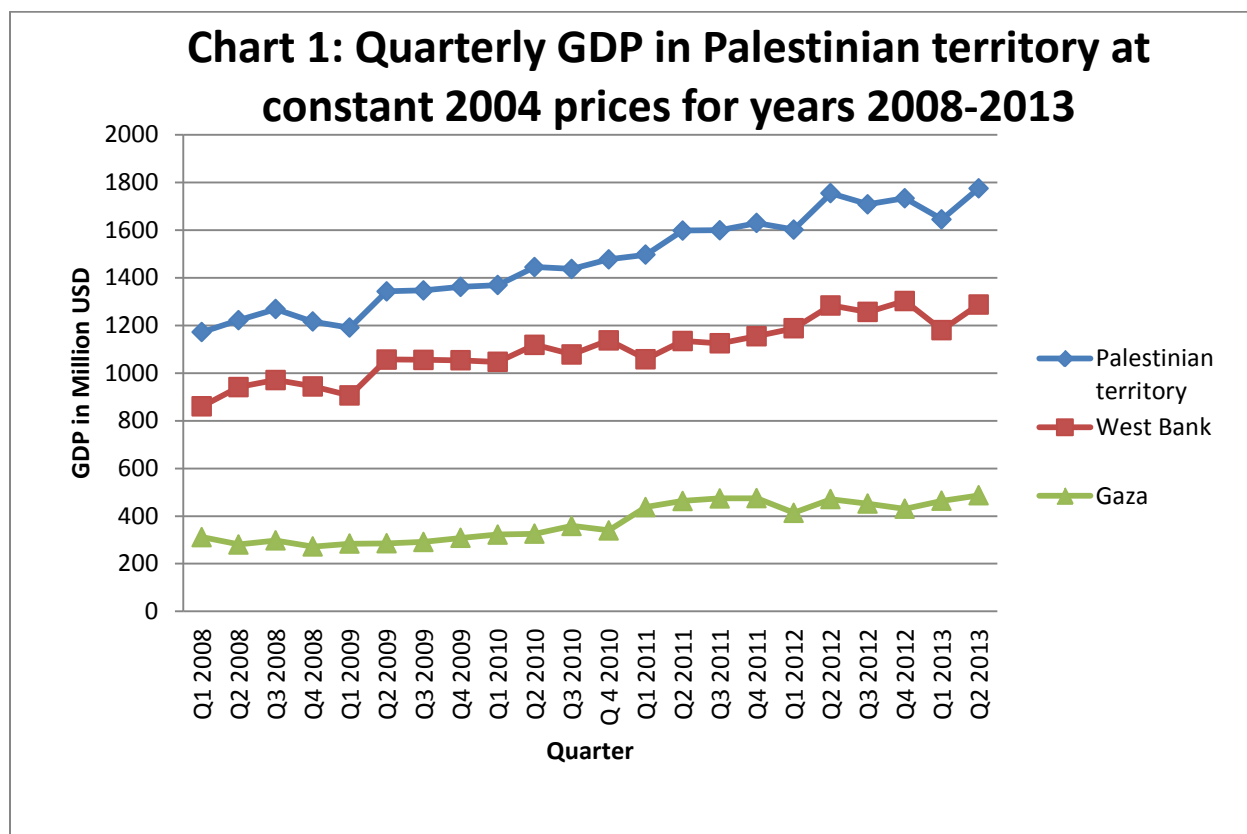
Real GDP in West Bank amounted to USD 1288 million in Q3 2013, remaining at the same level of Q2 2013 and a growth of 2.5% over Q3 2012. GDP in Gaza reached USD 465 million in Q3 2013, growing by 2.9% over Q3 2012, and a decline by 4.6% over Q2 2013 (Table 1A).

During the first three quarters of 2013 real GDP in Palestine has increased by 2.1% over the parallel period of 2012 and amounted to USD 5173 million. Real GDP in west bank amounted to USD 3757 million in the first three quarters of 2013 (an increase of 0.8%), while in Gaza real GDP amounted to USD 1417 million, growing by 6% over the first three quarters of 2012. (Table 1B)

Table 1A. Palestinian Territory Real GDP*(USD million)			
	Real GDP value in Q3 2013	% Change in Q3 2013 from Q3 2012	% Change in Q3 2013 from Q2 2013
Palestine	1752	2.6%	-1.3%
West Bank	1288	2.5%	-0.01%
Gaza	465	2.9%	-4.6%
*Base year 2004.			

Table 1B. Palestinian Territory Real GDP*(USD million)			
	Real GDP value first 3 quarters 2013	Real GDP value first 3 quarters 2012	% Change in 2013/2012
Palestine	5173	5064	2.1%
West Bank	3757	3728	0.8%
Gaza	1417	1336	6.0%
*Base year 2004.			

¹Palestinian Central Bureau of Statistics, 2013. Press Report, Preliminary Estimates of Quarterly National Accounts (Third Quarter 2013). Ramallah - Palestine.



GDP per Capita² Gross Domestic Product Per Capita GDP for Palestine at constant prices was USD 419 during the 3rd quarter 2013, it showed a decrease of 0.4 percent compared to the 3rd quarter 2012. As for West Bank* at constant prices it was USD 520 during the 3rd quarter 2013, it showed a decrease by 0.2 percent during the 3rd quarter 2013 compared to the 3rd quarter 2012, and for Gaza Strip was USD 272 during the 3rd quarter 2013, and it showed a decrease of 0.7 percent during the 3rd quarter 2013 compared to the 3rd quarter 2012.

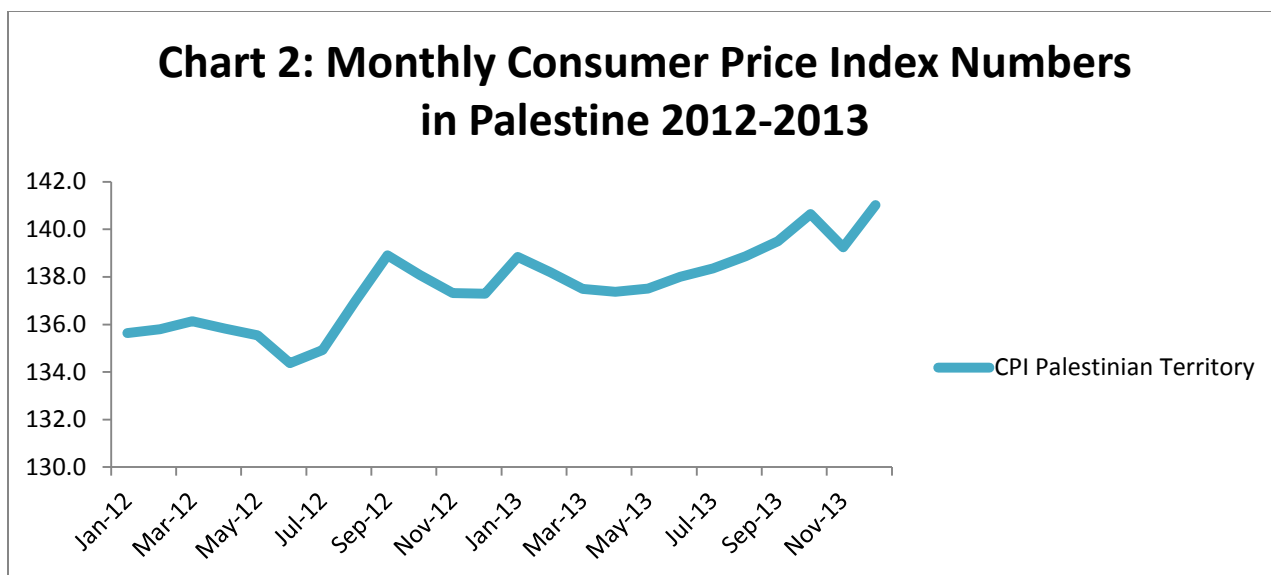
The overall Consumer Price Index in Palestine, the overall Consumer Price Index (CPI) for Palestine during 2013 has increased by 1.72% compared to full year of 2012, while it showed an increase of 3.1% in West Bank and decreased slightly in Gaza by 0.76%. The most significant increases in groups of expenditures were in alcoholic beverage and tobacco which showed an increase of 12.4% due to the government policy of increasing tobacco prices to increase its revenues, housing CPI showed an increase of 3.8% due to the continued demand on houses

²PCBS, Press Report, Preliminary Estimates of Quarterly National Accounts (Third Quarter 2013) Main Results.

especially in West Bank, education CPI showed a significant increase of 7% and restaurants and cafes CPI showed also an increase of 3.7%. Whereas there was no significant decline in the prices of other major groups which had lead to the increase in the all items consumer price index for the full year of 2013.

Table 2: Consumer Price Index Numbers by Major Groups of expenditure and Region for Average of January - December 2013 and Percent Changes from Average of January - December 2012.³			
Major Groups of Expenditure	Ave.1-12/2012	Ave.1-12/2013	% Change
Food and soft drinks	151.25	152.46	0.80%
Alcoholic Beverages and tobacco	173.85	195.35	12.37%
Textiles, clothing and footwear	115.66	114.90	-0.66%
Housing	136.10	141.33	3.84%
Furniture, household goods	116.76	118.75	1.71%
Medical care	119.86	121.90	1.70%
Transportation	129.26	128.30	-0.74%
Communications	107.61	107.32	-0.27%
Recreational, cultural goods & services	105.54	104.95	-0.55%
Education	118.97	127.24	6.95%
Restaurants and cafes	150.59	156.11	3.67%
Miscellaneous goods and services	131.21	129.46	-1.33%
All items of consumer price index	136.40	138.75	1.72%

³ Source: PCBS, Statistics: Consumer Price Index.



The total population of Palestinians⁴, the Palestinian Central Bureau of Statistics (PCBS) presents in their report (Palestinians at the end of 2013) an Increase in world population of Palestinians. The projected number of Palestinians in the world is 11.8 million, of whom 4.5 million are in Palestine, 1.4 million in Israel, 5.2 million in Arab countries and around 665 thousand in foreign countries.

More than one-third of population in Gaza Strip. The projected number of Palestinians living in Palestine at the end of 2013 is 4.5 million: around 2.8 million reside in the West Bank and 1.7 million in Gaza Strip. Palestinian refugees make up 44.2% of the Palestinian population in Palestine: 41.2% of them in the West Bank and 58.8% in Gaza Strip.

Decrease in average household size, the average household size in Palestine was 5.3 persons in 2012 compared to 6.4 in 1997: 5.1 persons in the West Bank and 6.0 persons in Gaza Strip.

Youthful Palestinian population in Israel The number of Palestinians living in Israel is 1.4 million, of whom about 36.1% are aged below 15 years compared to 4.1% aged 65 years and above.

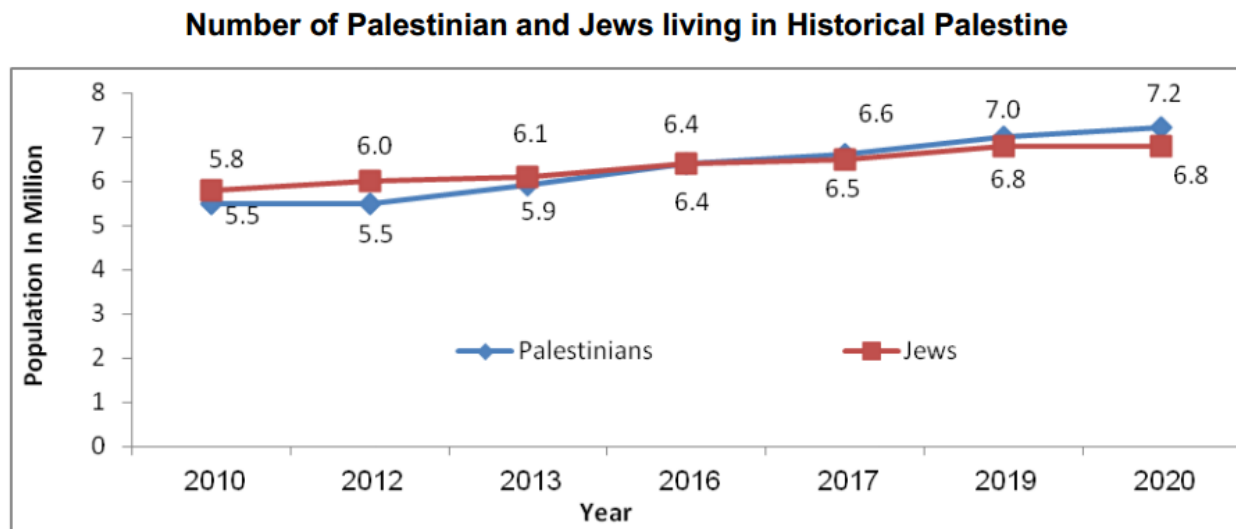
The number of Palestinians in historical Palestine will exceed the number of Jews over time, the number of Palestinians in historical Palestine totaled 5.9 million at the end of 2013. There were 6.0 million Jews at the end of 2012 according to estimates by the Israeli Central Bureau of Statistics and the number is expected to reach 6.1 million Jews by the end of 2013.

The number of Palestinians and Jews will total about 6.4 million each by the end of 2016 provided that current growth rates remain constant. However, the number of Palestinians in

⁴ Source: Palestinian Central Bureau of Statistics (PCBS), Press release: The Palestinians at the end of Year, 2013.

historical Palestine will total 7.2 million compared to 6.9 Jews by the end of 2020.

Chart 3:



Labor Force and Unemployment⁵, The labor force participation rate in the West Bank was 45.7% and 42.4% in Gaza Strip. The gap in the participation rate between males and females still very big it reached 70% for males compared with 18.3% for females.

Unemployment rate in Palestine reached 25.2% during the fourth quarter of 2013. The unemployment rate in West Bank reached 18.3% during Q4 2013 compared to 19.1% during Q3 2013. In Gaza, unemployment reached 38.6% during Q4 2013, compared to 32.5% during Q3 2013. The highest unemployment rate in the 3rd quarter 2013 was 43.9% among youth aged 20-24 years.

The highest unemployment rate in the West Bank governorates was in Hebron with 25.3% while in Gaza Strip, the highest unemployment rate was in Rafah with 48.1%.

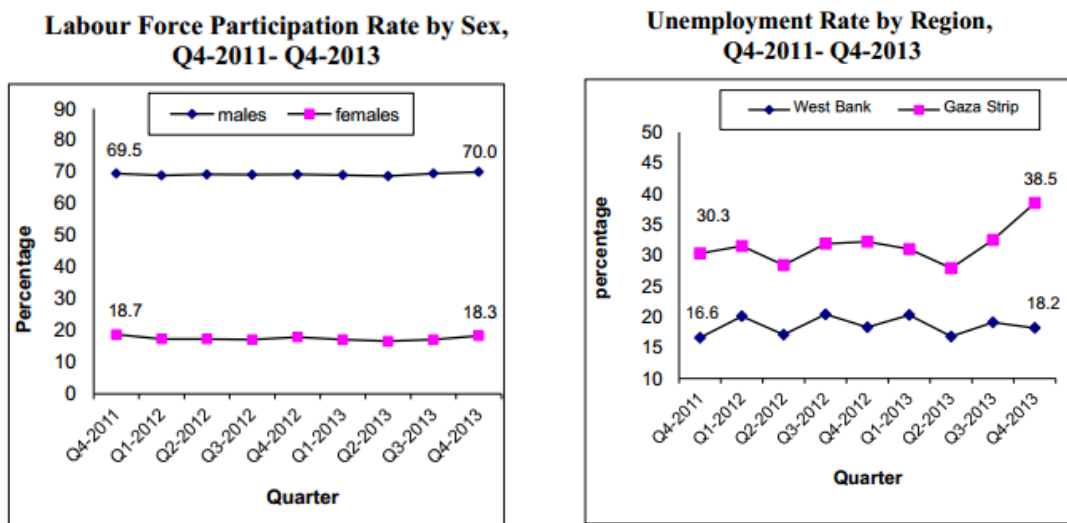
Working in Israel, the number of employed persons from the West Bank employed in Israel and Israeli settlements increased from 103 thousand in the 3rd quarter 2013 to 105 thousand in the 4th quarter of 2013. Of these, 51,700 had a permit, 34,300 worked without a permit and 18,700 employed persons have an Israeli identity card or foreign passport. 60.9% of employed in Israel and Israeli settlements work in the construction sector.

⁵ Palestinian Central Bureau of Statistics, 2013. Labour Force Survey: (July- September, 2013) Round, (Q3/2013). Press Report on the Labour Force Survey Results. Ramallah - Palestine.

The average daily wage for persons employed in Israel and Israeli settlements increased from 178.9 NIS in the 3rd quarter 2013 to 180.9 NIS in the 4th quarter of 2013. The average daily wage for waged employees in the West Bank was 90.2 NIS compared with 64.4 NIS in Gaza Strip.

Table 2. Labor Force participation during Q4 2013			
Region	Labor Force	Unemployment	
	Total number	%	Number
Palestine	1,194,000	25.2%	301,200
West Bank	780,000	18.2%	141,600
Gaza	414,000	38.6%	159,600

Charts 4 & 5:



External Trade: Exports for the period Jan-Nov 2013 showed a growth of 7.8% compared to the same period of 2012. Exports amounted to USD 764.2 million with a monthly average of USD 69.4 million in Jan-Nov 2013 compared to USD 709.2 million for the same period 2012.

On the other hand, imports during Jan-Nov 2013 amounted to USD 4.2 billion, with a monthly average of USD 381 million, compared to USD 4.3 billion for the same period 2012, a decline of 2.7%.

Exports to Israel represented 87.9% of total exports in November and imports represented 63.9% of total imports in November 2013.

The trade deficit reached USD 313 million in Dec 2013 for a total trade deficit for 2013 of USD 3.74 billion. When compared to 2012, the total trade deficit decreased by 4.5% due to the decrease in the total value of imports during 2013 by 2.5%.

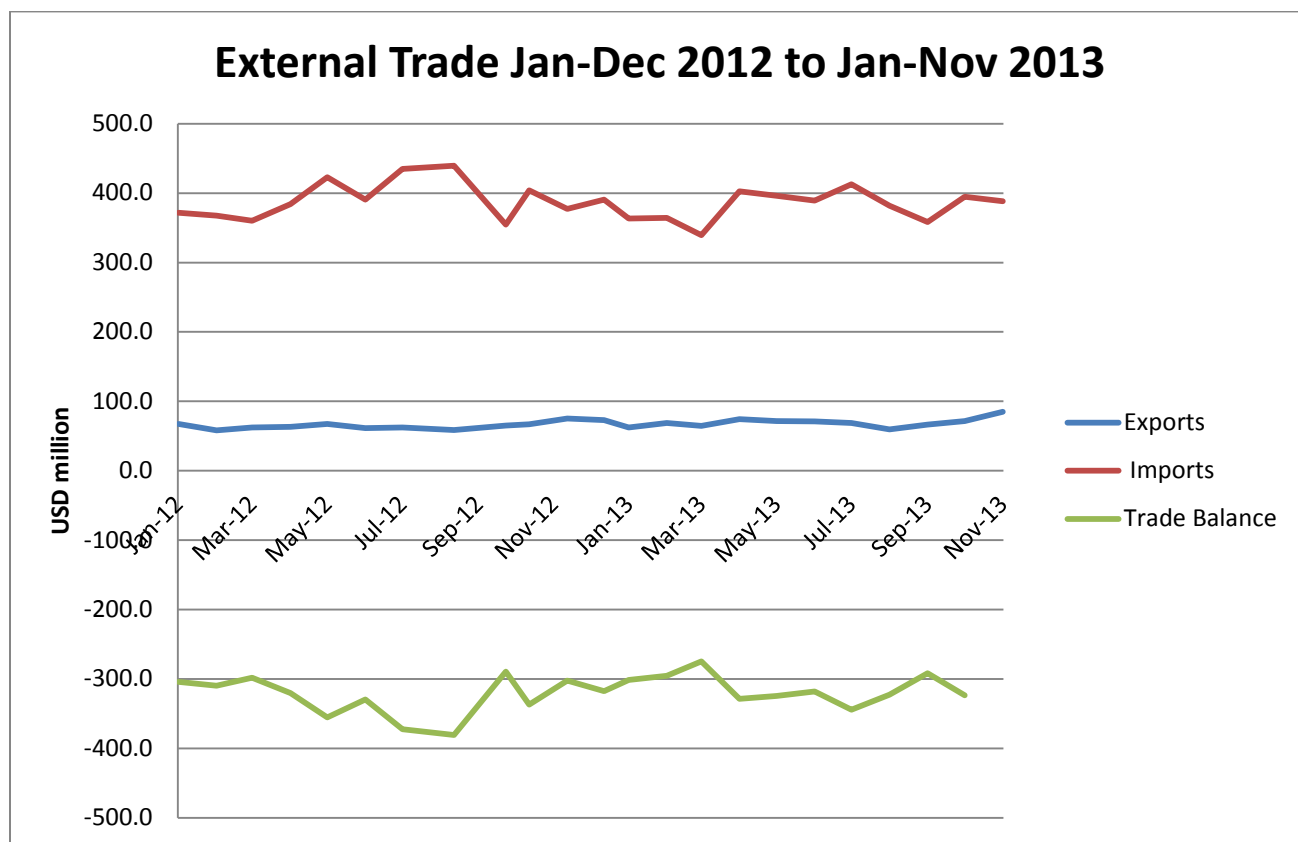
Table 3: External Trade, Jan-Nov 2013 USD million.

	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-12
Exports	62.3	68.9	64.6	74.2	71.8	71.1	68.6	59.4	66.7	71.6	85.0	75.2
Imports	363.6	364.3	339.2	402.7	396.2	389.1	412.7	382	358.2	394.9	388.3	388.6
Balance	-301.3	-295.4	-274.6	-328.5	-324.4	-318	-344.1	-322.6	-291.5	-323.3	-303.3	-313.4

Table 3B: External Trade, USD million

	Full year 2012	Full year 2013	% change
Exports	782.4	839.4	7.3%
Imports	4697.4	4579.8	-2.5%
Balance	-3,915.0	-3740.4	-4.5%

Chart 6:



Section 2: Fiscal Operations for the full year 2013

A. Budget execution highlights:

- **The Total Budget Deficit** during 2013 amounted to NIS 5.66 billion, a decrease of 13% over 2012. The total balance exceeded its annual budget target by NIS 481 million (9%). **The recurrent budget deficit** in 2013 amounted to NIS 4.99 billion, exceeding its budget target by NIS 1.1 billion. This increase can be attributed to a shortfall in net revenues and an increase in total expenditures and net lending over their budget targets by NIS 859 million and NIS 244 million, respectively.
- **Gross revenues** in 2013 amounted to NIS 9.18 billion, falling below the budget target by NIS 481 million due to shortfalls in domestic tax, nontax and clearance revenues by NIS 57 million and NIS 157 million and NIS 268 million, respectively. **Total net revenues** reached NIS 8.35 billion during 2013, falling short of the budget by NIS 859 million (9%). The larger shortfall in net revenue than in gross revenue was due to the “subsidizing” of diesel fuel prices, beginning of April and resulting in larger unbudgeted tax refunds which were above the budget target by NIS 378 million.
- **The wage bill** by the end of 2013 amounted to NIS 6.93 billion, reaching its full year budget target. The wage bill grew by 2% over 2012 as a result of a policy to control the growth in the number of employees and salaries.
- **Nonwage expenditures** during 2013 amounted to NIS 5.65 billion, falling short of its budget target, mainly due to a shortfall in use of goods and services and transfers by NIS 89 million and NIS 216 million, respectively. Nonwage expenditures in 2013 declined by 1% over 2012, as a result of the PA’s effort to rationalize its expenditures.
- **Net lending** amounted to NIS 760 million during 2013, and was above the budget target by NIS 460 million. This was mostly due to a slower pace of shifting the responsibility of electricity bill collection from municipalities to NEDCO, which the budget assumed would occur at a faster pace.
- **Budget support** disbursement was 111% of its full year budget target while the **development projects financing** was only 35% of the budget target.

Table 5: Consolidated Fiscal Operations Analysis of Q4 2013 and Full year 2013 (Commitment Basis)

	Q4 2013	Q4 2013/Q4 2012	Actual 2013	Actual 2013/2012	2013 Budget	Actual 2013 as % of Budget	Deviation from 2013 budget	Deviation from 2013 budget
	NIS mill	%	NIS mill	%	NIS mill	%	NIS mill	%
Gross Revenues	2439.1	18%	9181.3	9%	9662.8	95%	-481.5	-5%
Total Net Revenues	2248.4	18%	8347.6	4%	9206.8	91%	-859.2	-9%
Gross Domestic Revenue	733.4	13%	3078.5	10%	3291.8	94%	-213.3	-6%
Domestic Tax Revenues	550.1	18%	2157.2	16%	2213.8	97%	-56.6	-3%
Income Tax	166.4	46%	714.2	8%	760.0	94%	-45.8	-6%
Value Added Tax	267.1	34%	852.3	26%	734.0	116%	118.3	16%
Customs	50.3	42%	192.9	22%	249.8	77%	-56.9	-23%
Excises on Beverages	0.3	-80%	5.7	-34%	9.0	63%	-3.3	-37%
Excises on Tobacco	65.2	-42%	378.2	12%	450.0	84%	-71.8	-16%
Property Tax	0.7	-26%	13.8	34%	11.0	126%	2.8	26%
Clearance Revenue	1705.7	21%	6102.8	9%	6371.0	96%	-268.2	-4%
Customs	559.6	9%	2073.4	5%	2270.0	91%	-196.6	-9%
Value Added Tax	548.7	17%	2016.5	8%	2140.0	94%	-123.5	-6%
Purchase Tax	0.0	-100%	2.6	-83%	17.0	15%	-14.4	-85%
Petroleum Excise	565.7	34%	1970.5	12%	1934.0	102%	36.5	2%
Income Tax	31.7	874%	39.9	352%	10.0	399%	29.9	299%
Tax Refunds (-)	190.7	24%	833.7	92%	456.0	183%	377.7	83%
Fuel	187.6		719.9		-	-		
Other (2)	3.1		113.8		-	-		
Nontax Revenues	183.3	-1%	921.3	-3%	1078	85%	-156.7	-15%
Domestic Fees and Charges	183.3	0%	858.5	3%	918.0	94%	-59.5	-6%
Civil Registration Fees	4.6	-21%	27.5	-37%				
Health Insurance	41.1	4%	173.6	2%				
Transportation	23.8	22%	95.2	5%				
Licenses	16.1	-61%	194.5	2%				
Other charges and fees	97.8	25%	367.8	8%				
Investments Profits (3)	0.0	-100%	62.8	-48%	160.0	39%	-97.2	-61%
Total Expenditure and Net lending	3286.1	-14%	13335.6	-2%	13092.0	102%	243.6	2%
Wages and salaries	1760.4	5%	6927.7	2%	6956.0	100%	-28.3	0%
Nonwage Expenditure	1314.5	-17%	5648.0	-1%	5836.0	97%	-188.0	-3%
Social contributions	159.8	5%	638.5	4%	608.0	105%	30.5	5%
Use of goods and services	410.2	-36%	1816.5	-14%	1906.0	95%	-89.5	-5%
Transfers	656.0	-15%	2839.0	1%	3055.0	93%	-216.0	-7%
Minor capital	9.9	15%	29.4	14%	77.0	38%	-47.6	-62%
Interest	78.7	276%	324.6	123%	190.0	171%	134.6	71%
Domestic	72.8	313%	306.1	138%	169.0	181%	137.1	81%
External	5.8	78%	18.6	8%	21.0	89%	-2.4	-11%
Net lending	211.3	-61%	759.9	-29%	300.0	253%	459.9	153%
Current Balance	-1037.8	-46%	-4988.0	-11%	-3885.2	128%	-1102.8	28%
Development Expenditures	159.9	-45%	673.5	-28%	1295.0	52%	-621.5	-48%
Balance	-1197.7	-46%	-5661.5	-13%	-5180.2	109%	-481.3	9%
Financing	1197.7	-46%	5661.5	-13%	5180.2	109%	481.3	9%
External Budgetary Support	802.2	7%	4531.6	52%	4070.0	111%	461.6	11%
Development Financing	152.9	-28%	383.5	-36%	1110.0	35%	-726.5	-65%
Net Domestic Bank Financing	-143.8	-116%	-895.0					
Expenditure Arrears (Net Accumulation)	475.5	-33%	1666.7					
Clearance Revenue Adjustment	12.2	-94%	13.9					
Tax Refunds (Arrears)	125.7	43%	27.0					
Residual	-205.1		-38.4					

B. Revenues

Gross revenues in 2013 amounted to NIS 9.18 billion, an increase of 9% over 2012, **while Total net revenues** reached NIS 8.35 billion in 2013, a 4% increase over 2012. Total net revenues were around NIS 2.25 billion during Q4 2013, increasing by 18% over the parallel quarter last year. The increase in net revenues during Q4 2013 is attributed to increases in income tax and VAT resulting from advance payments of profit tax, payroll tax, and VAT by Bank of Palestine in October.

Domestic tax revenues reached NIS 2.16 billion in 2013, a 16% increase over the year 2012.

Tax revenues amounted to NIS 550 million during the 4th quarter of 2013, an increase of 18% over Q4 2012. This increase could be attributed to the increase in income tax, value added tax and customs during Q4 2013 over the last year's parallel period. Value added tax reached NIS 267 million during Q4 2013, an increase of 34% over Q4 2012. This increase is mainly due to payments received from Bank of Palestine in October.

Domestic customs, which is purchase tax and customs levied on cars that are reevaluated and collected by the PA, performed well during Q4 2013 and amounted to NIS 50 million, a 42% increase over the same period last year. Income tax amounted to NIS 166 million during the 4th quarter of 2013, a 46% increase over the same period last year. This significant increase is attributed to the payments received from the Bank of Palestine in October.

Excise on tobacco revenue collection slowed down in Q4 2013 after a good run during the first half of 2013. Tobacco excises amounted to NIS 65 million during Q4 2013, a decline by 42% over Q4 2012. This is mainly due to substitution from commercial cigarettes to hand-rolled (roll ups) cigarettes, which are planted in Northern West Bank areas and sold under the counter. This substitution is mainly due to the successive increases in the excises on tobacco, specifically on the "Victory" domestic brand, which is "subsidized" by the PA. The price of Victory was raised from NIS 10 in January 2013 to NIS 11, from NIS 11 to NIS 14 on May 14th, and raised again from NIS 14 to NIS 16.5 on August 20th, 2013. Also, the smuggling of commercial cigarettes into the Palestinian market leads to a significant loss of revenue.

Nontax revenues amounted to NIS 183 million during Q4 2013, a 1% decline over Q4 2012. This decline is mostly related to investment profits. The 2013 budget assumed NIS 160 million in investment profits from PIF, an amount which was not obtained, since only NIS 62.8 million were received from the PIF in the first quarter of 2013. **domestic fees and charges** reached NIS 183 during Q4 2013, reaching the same level as Q4 2012.

Clearance revenues, which account for two thirds of PA revenues, amounted to NIS 6.1 billion in 2013, an increase of 9% over the year 2012. This growth could be attributed to the increase in the VAT rate during 2013, and to receiving some petroleum excise and VAT on petroleum from Gaza after the crack down on the tunnels by the Egyptian authorities. During Q4 2013, clearance revenues increased by 21% over Q4 2012. The major components of clearance revenues performed better in Q4 2013 relative to the same quarter of 2012.

Value added tax amounted to NIS 549 million during Q4 2013, a 17% increase over Q4 2012. This increase is mainly due to the VAT rate increase to 16% implemented in June 2013.

Petroleum excises amounted to NIS 566 million, a 34% increase over Q4 2012 due to the increased consumption of petroleum in the West Bank. Also, The PA began receiving petrol excises from Gaza in the clearance revenues, as Gaza shifted to importing from Israel due to the closure of tunnels with Egypt.

Tax refunds amounted to NIS 191 million during Q4 2013, a 24% increase over Q4 2012, due to the government's policy efforts in 2013 to reduce the transportation cost burden stemming from high fuel prices to the Palestinian public. Diesel fuel prices were reduced during the first half of the year, resulting in large increases in tax refunds from about NIS 40 million per month during the first quarter of 2013, to NIS 70 million per month in May and June 2013. In an effort to reduce tax refunds, the PA decided on July to reduce the "subsidy" on fuel to around NIS 60-65 million per month. The PA began increasing the subsidy for petroleum products during August 2012 due to social unrest, but the amount of the initial subsidy did not reach the high levels reached in 2013, explaining the significant increase between the parallel quarters.

Chart 7: Major revenue types, 4th quarter 2013

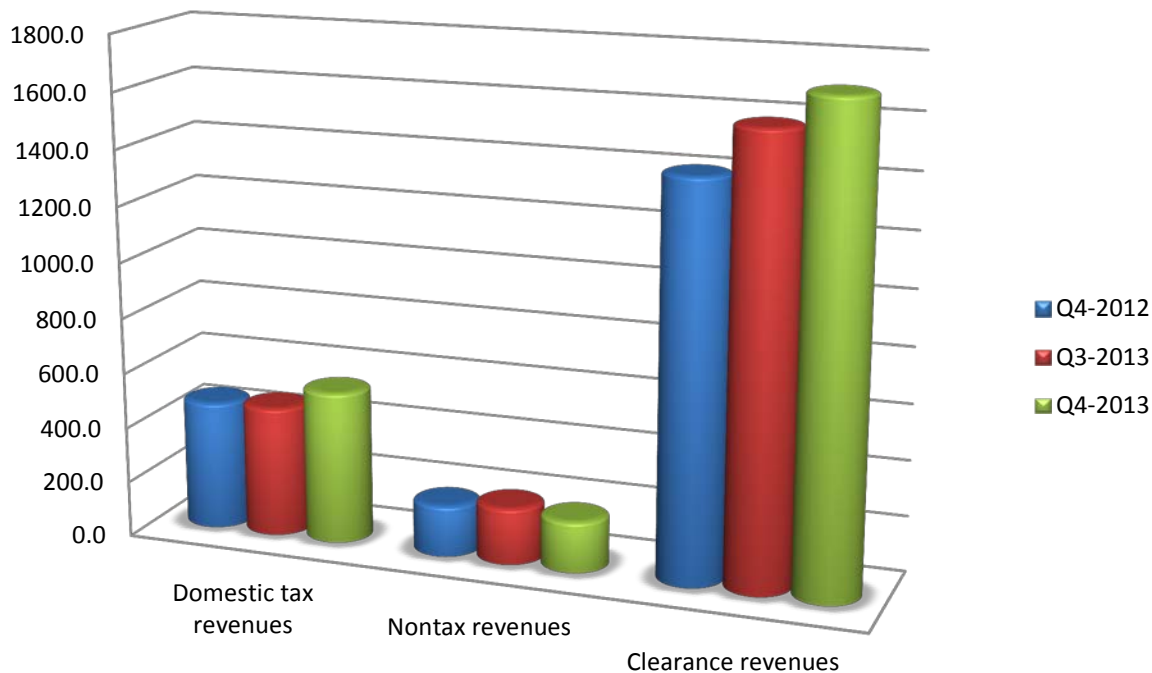
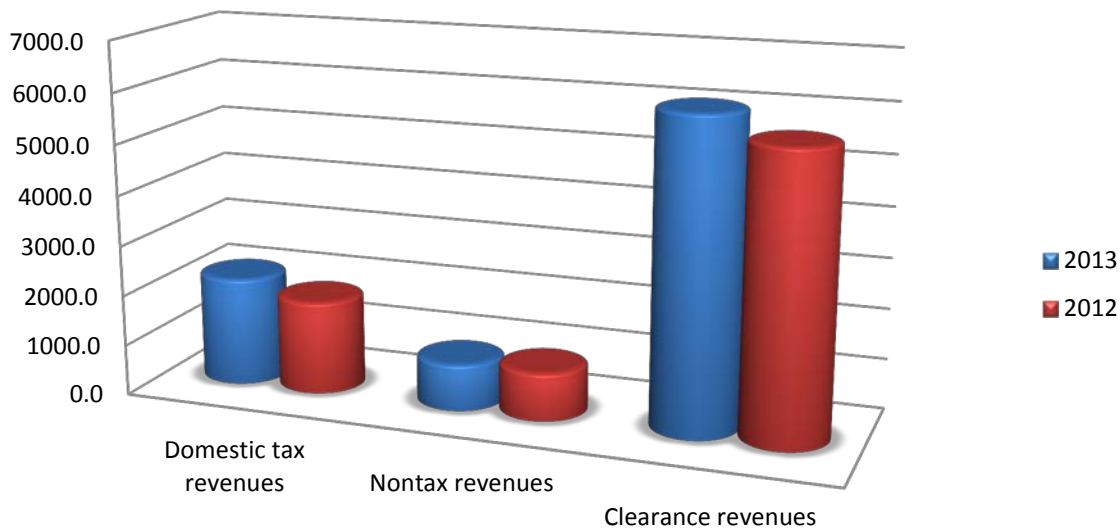


Chart 8: Major revenue types, 2013/2012

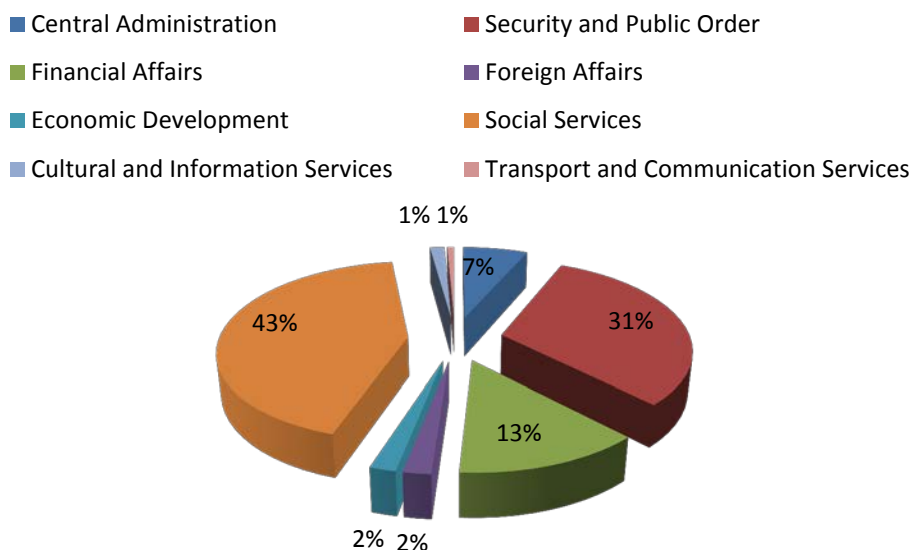


C. Total Expenditures

Total expenditures and net lending during Q4 2013 amounted to NIS 3.29 billion, a decline of 14% over the expenditure level in Q4 2012. This decline is mainly attributed to the shortfall of nonwage expenditures during Q4 2013. During the full year 2013, total expenditure and net lending reached NIS 13.34 billion, a 2% decline over the year 2012. This decline reflects the PA's efforts to limit the growth in the wage bill and rationalize public expenditure. Also, net lending declined in 2013 when compared to 2012, due to the non-recurring unilateral deductions of clearance revenue in 2012 by Israel to repay outstanding debt to IEC.

Table 6. Budget Execution Jan-Dec 2013, Recurrent expenditures by Sector, NIS million.			
Sectors	Recurrent Total Expenditures	2013 Sector Budget	% of Sector Budget
Central Administration	784,936	871,669	90%
Security and Public Order	3,766,404	3,932,917	96%
Financial Affairs	1,605,731	1,522,728	105%
Foreign Affairs	238,891	251,137	95%
Economic Development	226,420	313,586	72%
Social Services	5,163,901	5,570,295	93%
Cultural and Information Services	175,871	234,477	75%
Transport and Communication Services	86,072	95,310	90%
Total	12,048,225	12,792,119	94%

Chart 9: Recurrent expenditures by Sector

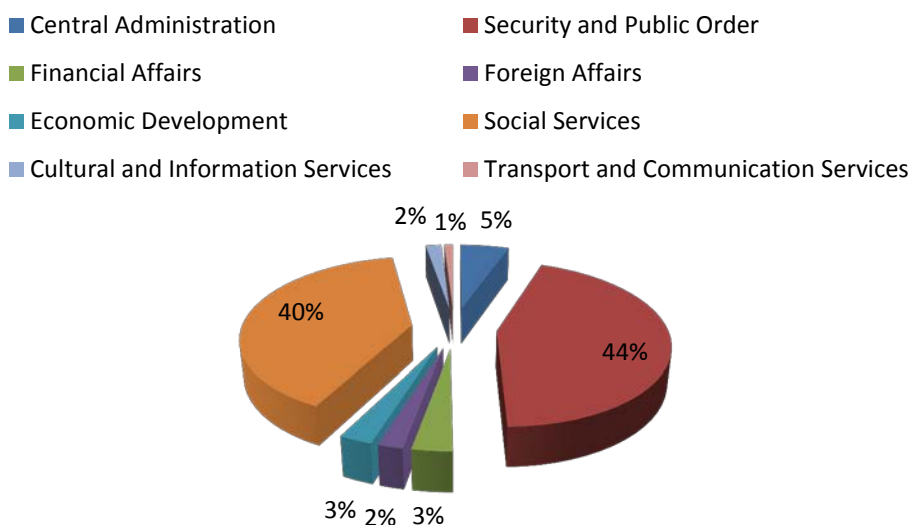


Wage expenditure in Q4 2013 amounted to NIS 1.76 billion, an increase of 5% over the wage bill in Q4 2012. The increase is attributed to NIS 39 million which were added to wage commitments, which include allowances for teachers and civil service employees (COLA compensation). There has been an effective freeze on net hiring in the PNA, in addition to a limited increase in the wage bill by 2%. This was a major retrenchment measure towards controlling PA's expenditures in an effort to lower the recurrent fiscal deficit.

Table 7. Budget Execution Jan-Dec 2013, Wages and Salaries by Sector, NIS million.

Sectors	Wages and Salaries	2013 Sector Budget	% of Sector Budget
Central Administration	375,730	379,061	99%
Security and Public Order	3,058,839	3,171,500	96%
Financial Affairs	219,885	234,434	94%
Foreign Affairs	136,804	138,618	99%
Economic Development	180,897	187,946	96%
Social Services	2,744,201	2,654,519	103%
Cultural and Information Services	120,228	120,250	100%
Transport and Communication Services	67,370	70,164	96%
Total	6,903,953	6,956,492	99%

Chart 10: Wages and salaries by sector



Social contributions in Q4 2013, the social contributions amounted to NIS 160 million, an increase over Q4 2012 by 5%. In 2013, social contributions reached NIS 638 million, increasing by 4% over 2012, and exceeding the budget target by NIS 30.5 million.

Table 8. Budget Execution Jan-Dec 2013, Social contribution by Sector, NIS million.

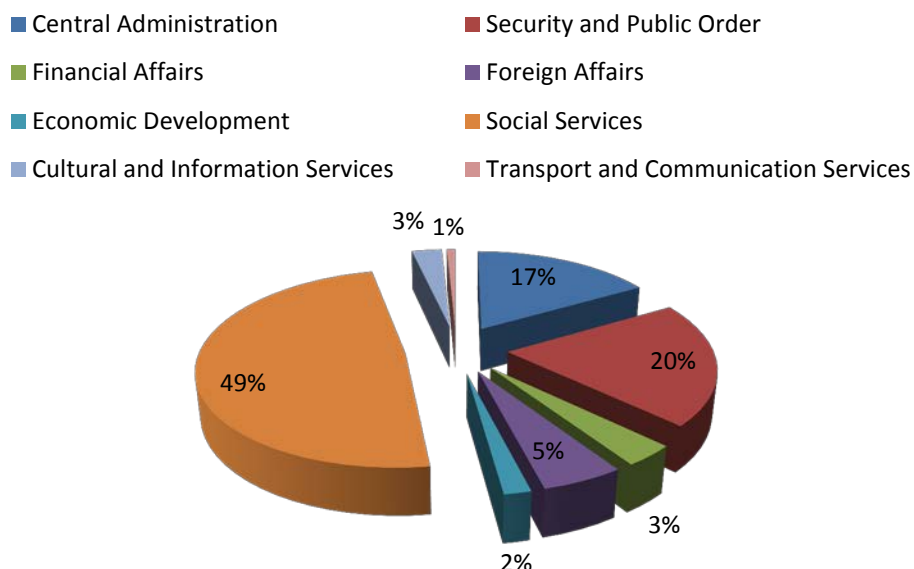
Sectors	Social Contribution	2013 Sector Budget	% of Sector Budget
Central Administration	29,320	30,446	96%
Security and Public Order	292,157	303,811	96%
Financial Affairs	20,734	17,618	118%
Foreign Affairs	2,918	2,839	103%
Economic Development	17,229	17,708	97%
Social Services	258,266	217,772	119%
Cultural and Information Services	11,356	11,129	102%
Transport and Communication Services	6,507	6,871	95%
Total	638,487	608,194	105%

Use of goods and services amounted to NIS 410 million during the 4th quarter of 2013, a decline over Q4 2012 by 36%. This decline reflects PA's austerity measures and its efforts to rationalize public expenditures. Use of goods and services amounted to NIS 1816.5 million in 2013, a 14% decline over the year 2012. Use of goods and services reached 95% of its budget target, falling short by NIS 89.5.

Table 9. Budget Execution Jan-Dec 2013, Use of Goods & Services by Sector, NIS million.

Sectors	Use of Goods & Services	2013 Sector Budget	% of Sector Budget
Central Administration	250,657	307,213	82%
Security and Public Order	308,061	323,125	95%
Financial Affairs	52,257	65,060	80%
Foreign Affairs	81,149	90,980	89%
Economic Development	26,915	48,932	55%
Social Services	731,936	963,072	76%
Cultural and Information Services	42,096	91,528	46%
Transport and Communication Services	11,901	16,025	74%
Total	1,504,970	1,905,935	79%

Chart 11: Use of Goods & Services by Sector



Transfers in Q4 2013 amounted to NIS 656 million, a decline over Q4 2012 by 15% mainly due to the decline in social assistance during Q4 2013. For the year 2013, transfers amounted to NIS 2.84 billion, a 1% increase over 2012.

Table 10. Budget Execution Jan-Dec 2013, Transfers by Sector, NIS million.

Sectors	Transfer Expenditure	2013 Sector Budget	% of Sector Budget
Central Administration	127,991	149,000	86%
Security and Public Order	103,426	120,000	86%
Financial Affairs	987,934	1,008,900	98%
Foreign Affairs	13,358	13,600	98%
Economic Development	-	53,500	0%
Social Services	1,425,257	1,709,733	83%
Cultural and Information Services	-	300	0%
Transport and Communication Services	-	-	-
Total	2,657,966	3,055,033	87%

Minor capital expenditures in Q4 2013 amounted to NIS 10 million. This amount reached only 38% of its 2013 budget target by the end of the 4th quarter of 2013. This is mainly due to the liquidity crisis the PA is facing.

Interest (both domestic and external) in Q4 2013 amounted to NIS 79 million, an increase over Q4 2012 by 276%. For 2013, interest payments amounted to NIS 324.6 million, a 123% increase over interest payments during 2012. This significant increase in 2013 when compared to 2012 is mainly due to banks deducting what is owed to them from the PA and may be attributed to the underreporting in value of commitments for 2012.

Net lending amounted to NIS 211 million in Q4 2013, a decline of 61% over Q4 2012. Net Lending during 2013 amounted to NIS 760 million, a decline of 29% over the last year. The decline in 2013 when compared to 2012 is mainly due to Israeli deductions of clearance revenues in 2012 to repay electricity debts to the Israeli Electric Company (IEC), which significantly increased net lending in 2012.

Net lending was above its budget target by NIS 460 million. The 2013 budget assumed that progress to reduce net lending would be made by increasing the number of customers for the Northern Electricity Distribution Company (NEDCO), installing additional prepaid meters and limiting deductions at source by the Israeli authorities.

Development expenditures, on a commitment basis, channeled through the PA Treasury amounted to NIS 673 million during 2013, declining by 28% over 2012. Development expenditures during 2013 were below the budget target by NIS 621 million. Development expenditures amounted to NIS 160 million during Q4 2013, which is lower than Q4 2012 by 45%. This is mainly due to large shortfalls in external financing for development projects. Development expenditures were only 52% of the full year budget.

Chart 12: Comparison of Total Expenditure Categories

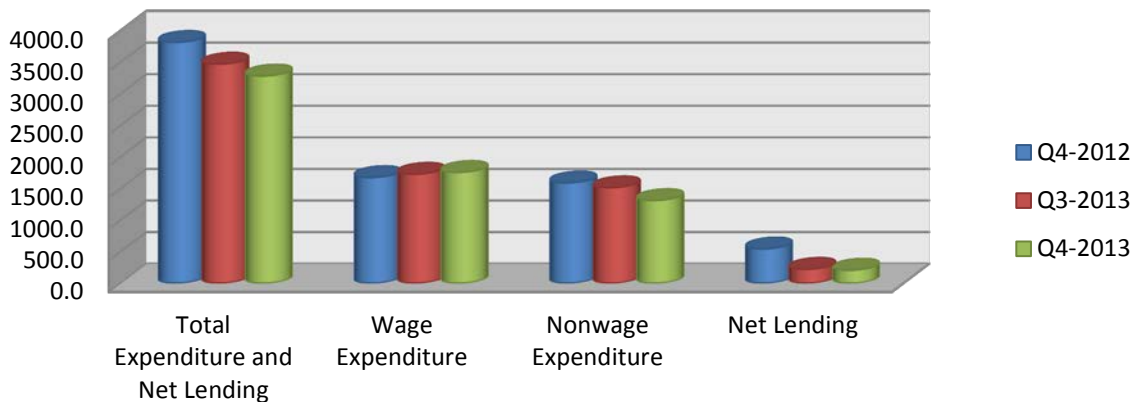
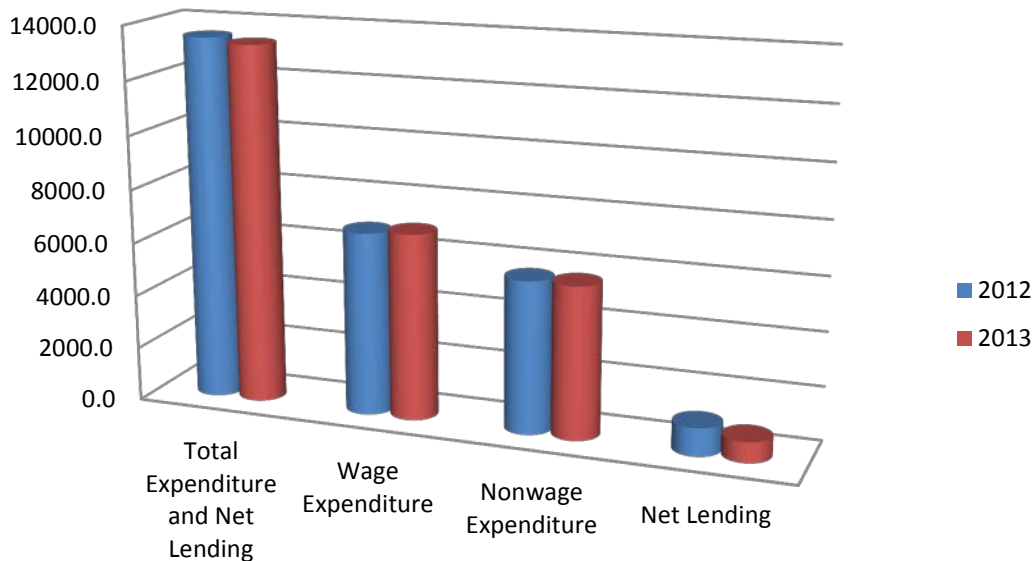


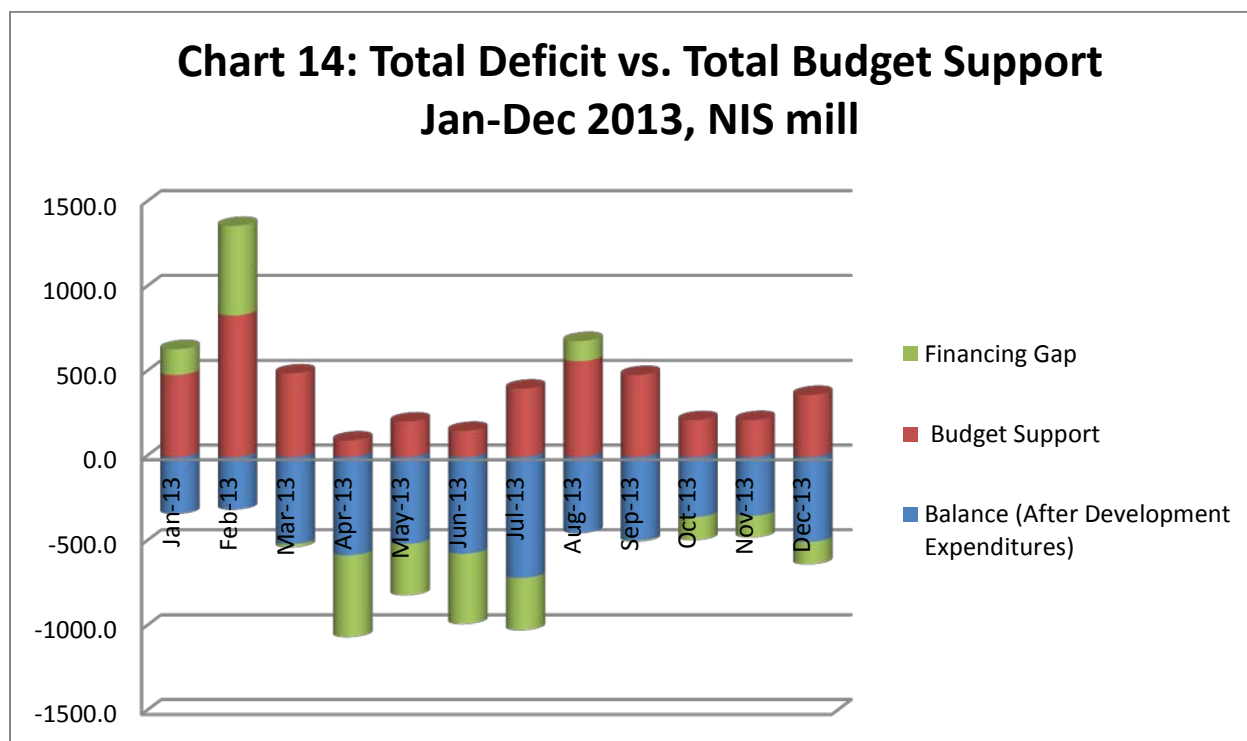
Chart 13: Comparison of Total Expenditure Categories 2013/2012



Financing: During the 4th quarter of 2013, external budget support amounted to NIS 802 million (USD 222 million), a 7% increase over the same period of 2012. External budget support

reached 111% of the full year budget target, as it exceeded its budget target by NIS 462 million. This is mainly due to large contributions made by Saudi Arabia and the USA during 2013.

Development financing amounted to NIS 152.9 million (around USD 43.4 million) during the 4th quarter of 2013, which is 28% lower than the amount disbursed during the same period last year. The Development financing amount received during 2013 was only 35% of the annual budget for development financing.

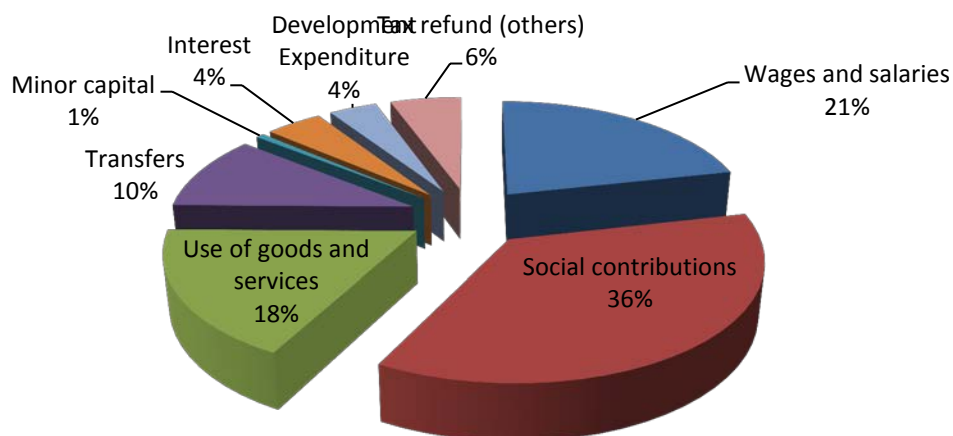


E. Arrears

Total net accumulation of arrears during the 2013 amounted to NIS 1.76 billion including development expenditures arrears of NIS 66.1 million and tax refund arrears (the “others” component) of NIS 98.1 million since the fuel tax refunds were fully paid during 2013. Payment arrears to the private sector⁶ have accumulated to NIS 563 million. The accumulated monthly wage arrears of NIS 380 million are the employee share not transferred to the pension fund.

Table 11: 2013 net accumulation of arrears	
Budget Classifications	NIS mill
Wages and salaries	379.6
Social contributions	638.5
Use of goods and services	309.5
Transfers	183.8
Minor capital	11.2
Interest	78.0
Development Expenditure	66.1
Tax refund (others)	98.1
Total	1764.8
Private sector arrears	562.9

Chart 15: 2013 net accumulation of arrears



⁶Payment arrears to private sector include use of goods and services, minor capital, development, interest, and the “other”/VAT component of Tax Refunds